

The complaint

Mr O complains that Sainsbury's Bank Plc ("Sainsbury's") irresponsibly granted him credit that he couldn't afford to repay.

What happened

Sainsbury's approved a £10,000 loan for Mr O in September 2021. Mr O needed to repay £12,648 through 60 monthly instalments of £210.80.

Mr O said that the loan wasn't affordable for him and it was irresponsible for Sainsbury's to have provided him with the credit.

Sainsbury's disagreed. They explained that they had asked Mr O about his income and that they had performed a credit search when Mr O applied for his loan. They said that credit search didn't identify any missed payments, arrears, or defaults on Mr O's other credit commitments. Sainsbury's explained that the debt to income ratio they reviewed was acceptable and they saw no reason not to approve the finance.

Our investigator didn't agree with Sainsbury's and he thought the loan shouldn't have been advanced. Sainsbury's therefore asked for a final decision by an ombudsman.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website. I've had this approach in mind when considering what's fair and reasonable here.

I don't think Sainsbury's completed reasonable and proportionate checks before they approved this loan.

This was quite a sizeable loan in relation to Mr O's reported income so I think Sainsbury's should have done more to establish if the income Mr O was reporting was accurate. I also think they should have considered the credit that Mr O had access to. The FCA's Consumer Credit Sourcebook (CONC) applies to all credit-related regulated activities. CONC 5.2A.27 says a lender has to calculate affordability based on the maximum limit. It says that they have to make assumptions on the full amount of borrowing available. Sainsbury's should therefore have considered the full amount of borrowing available to Mr O and that means they should have considered the credit limits on his revolving credit accounts.

I've therefore thought about what Sainsbury's would have found if they had completed proportionate checks. If Sainsbury's had validated Mr O's income I think they would have noted he'd overstated it. He was earning about £1,392 a month after tax and not the £1,995 (£30,000 per year) he'd reported. There was about £23,500 of revolving credit on his credit file and Mr O could have utilised all of that at any point. Had he done so and repaid the debt

over a reasonable period (about three years) he would have had to repay about £727 a month. Sainsbury's calculated that his monthly expenditure would have been about £425, and they would have been likely to note he was also paying £418 a month towards three other unsecured loans. That wouldn't leave any disposable income from which Mr O could afford to sustainably repay the loan Sainsbury's were being asked to approve. I don't therefore think the loan was affordable for Mr O and Sainsbury's were therefore irresponsible to provide it.

And, even if I'm wrong that Sainsbury's would have seen the loan wasn't affordable for Mr O purely by properly assessing his credit commitments, I think the excessive revolving credit should have led them to consider Mr O's expenditure in more detail. They didn't have to ask for bank accounts but, I think that's the best way to uncover what Sainsbury's would likely have found if they had asked for further information. I've therefore reviewed three months of statements from Mr O's main bank account for the period before his application. Those show Mr O was spending large sums on gambling. He spent over £8,500 in June 2021 alone. I think that supports my assessment that the loan wasn't affordable for Mr O.

Putting things right

Sainsbury's shouldn't have given Mr O the loan.

If they have sold the outstanding debt they should buy it back if they are able to do so and then take the following steps. If they are not able to buy the debt back then they should liaise with the new debt owner to achieve the results outlined below.

- Deduct the repayments Mr O made from the amount he was lent.
- If this results in Mr O having paid more than he received, any overpayments should be refunded along with 8% simple interest* (calculated from the date the overpayments were made until the date of settlement).
- If any capital balance remains outstanding, then Sainsbury's should attempt to arrange an affordable repayment plan with Mr O.
- Once the capital has been repaid, they should remove any adverse information recorded on Mr O's credit file in relation to the loan.

*HM Revenue & Customs may require the business to take off tax from this interest. If it does, the business must give the consumer a certificate showing how much tax it's taken off if they ask for one.

My final decision

I uphold this complaint and direct Sainsbury's Bank Plc to put things right in the manner I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr O to accept or reject my decision before 3 January 2023.

Phillip McMahon
Ombudsman